

Audit and Governance Committee

Dorset County Council



Date of Meeting	8 June 2016																																																
Officer	Chief Financial Officer																																																
Subject of Report	Draft 2015/16 Budget Outturn and Financial Management Report																																																
Executive Summary	<p>This report provides the Audit and Governance Committee with outturn information for the 2015/16 financial year. This information is still subject to external audit verification, which will begin on 6th June.</p> <p>The report also provides an early indication of the outlook for the 2016/17 financial year based on the latest available information from the Directorates.</p> <p>Finally, the Committee is being informed of the early work being undertaken in order that we can set a legal, balanced budget for the 2017/18 financial year.</p> <p>The outturn for the County Council for 2015/16 on services was £254.99m, against a final budget of £251.15m – an overspend of just over £3.8m. However, centrally controlled budgets underspent by £3.1m reducing the overspend to £0.688m.</p> <table border="1"> <thead> <tr> <th>Directorate</th> <th>Budget £000</th> <th>Outturn £000</th> <th>Variance £000</th> <th>% Var</th> </tr> </thead> <tbody> <tr> <td>Children's Services</td> <td>59,534</td> <td>64,362</td> <td>(4,828)</td> <td>-8%</td> </tr> <tr> <td>Adult & Community Services</td> <td>120,713</td> <td>121,373</td> <td>(660)</td> <td>-1%</td> </tr> <tr> <td>Environment and the Economy</td> <td>31,298</td> <td>30,433</td> <td>865</td> <td>3%</td> </tr> <tr> <td>Chief Executives</td> <td>20,473</td> <td>20,025</td> <td>448</td> <td>2%</td> </tr> <tr> <td>Partnerships</td> <td>19,135</td> <td>18,798</td> <td>337</td> <td>2%</td> </tr> <tr> <td>Service Total</td> <td>251,153</td> <td>254,991</td> <td>(3,838)</td> <td>-2%</td> </tr> <tr> <td>Central budgets</td> <td>(247,031)</td> <td>(250,181)</td> <td>3,150</td> <td>1%</td> </tr> <tr> <td>Total</td> <td>4,122</td> <td>4,810</td> <td>(688)</td> <td>-16%</td> </tr> </tbody> </table>				Directorate	Budget £000	Outturn £000	Variance £000	% Var	Children's Services	59,534	64,362	(4,828)	-8%	Adult & Community Services	120,713	121,373	(660)	-1%	Environment and the Economy	31,298	30,433	865	3%	Chief Executives	20,473	20,025	448	2%	Partnerships	19,135	18,798	337	2%	Service Total	251,153	254,991	(3,838)	-2%	Central budgets	(247,031)	(250,181)	3,150	1%	Total	4,122	4,810	(688)	-16%
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	<p>The key pressures facing the County Council were, and continue to be, in relation to the costs of social care in Adult and Community Services and particularly in Children's Services.</p> <p>During the year, Cabinet also approved a change to the way in which the Authority calculates its Minimum Revenue Provision (MRP). MRP is the amount the County Council must prudently set aside for the repayment of borrowing used to fund the capital programme. Our assessment of MRP during the year showed that in the past, our provision has been overly prudent, meaning that some of this can now be released back into general reserves. This means that despite the overspend, our general balances have increased since 1 April 2015 by a net £2.7m to £14.6m.</p> <p>An early assessment of the 2016/17 projected outturn has been completed based on known changes since the budget was approved in February 2016 and early spend indicators. This projection is showing an overspend against services of £6.77m.</p> <table border="1" data-bbox="528 748 1410 1245"> <thead> <tr> <th>Directorate</th> <th>Budget £000</th> <th>Forecast Outturn £000</th> <th>Forecast Variance £000</th> <th>Forecast Variance %</th> </tr> </thead> <tbody> <tr> <td>Children's Services</td> <td>56,924</td> <td>64,624</td> <td>(7,700)</td> <td>-14%</td> </tr> <tr> <td>Adult & Community Services</td> <td>120,833</td> <td>121,934</td> <td>(1,101)</td> <td>-1%</td> </tr> <tr> <td>Environment and the Economy</td> <td>29,926</td> <td>31,712</td> <td>(1,786)</td> <td>-6%</td> </tr> <tr> <td>Chief Executives</td> <td>18,668</td> <td>19,202</td> <td>(534)</td> <td>-3%</td> </tr> <tr> <td>Partnerships</td> <td>22,000</td> <td>21,649</td> <td>351</td> <td>2%</td> </tr> <tr> <td>Service Total</td> <td>248,351</td> <td>259,121</td> <td>(10,770)</td> <td>-4%</td> </tr> <tr> <td>Children's Services Contingency</td> <td>0</td> <td>(4,000)</td> <td>4,000</td> <td>-</td> </tr> <tr> <td>Dorset County Council Total</td> <td>248,351</td> <td>255,121</td> <td>(6,770)</td> <td>-3%</td> </tr> </tbody> </table> <p>It shows that the pressures remain in Adult and Community Services, increasing demand within Children's Services alongside new pressures within the Economy and the Environment and Chief Executive's Directorates, as they embed the 2016/17 savings targets. The forecast overspend within Children's Services remains particularly challenging, as £4m of one off funding was allocated to allow time to reduce the numbers of looked after children, which is not being seen at the pace expected, partially effected due to the month long Ofsted inspection, to enable the service to remain within budget.</p> <p>Significant early action is required across all Directorates to reduce this projected overspend if it is not to have an impact on the overall level of reserves and on the savings and efficiencies required in order to balance financial position of the County Council and the 2017/18 budget.</p>	Directorate	Budget £000	Forecast Outturn £000	Forecast Variance £000	Forecast Variance %	Children's Services	56,924	64,624	(7,700)	-14%	Adult & Community Services	120,833	121,934	(1,101)	-1%	Environment and the Economy	29,926	31,712	(1,786)	-6%	Chief Executives	18,668	19,202	(534)	-3%	Partnerships	22,000	21,649	351	2%	Service Total	248,351	259,121	(10,770)	-4%	Children's Services Contingency	0	(4,000)	4,000	-	Dorset County Council Total	248,351	255,121	(6,770)	-3%
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<p>Impact Assessment:</p> <p>Please refer to the protocol for writing reports.</p>	<p>Equalities Impact Assessment:</p> <p>This outturn report and high level update does not involve a change in strategy. As the strategy for managing within the available budget is developed, the impact of specific proposals on equality groups will be considered.</p>																																													

Draft Budget Outturn 2015/16 and Financial Management Report

	<p>Use of Evidence: This report draws on information from the Authority's accounting systems and other financial records and relies on reports and allocations from Government for future funding plans.</p> <p>Budget: The report provides information about the Authority's performance against its agreed budget for 2015/16 and a brief update on the budget challenges that lie ahead.</p> <p>Risk Assessment: Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as: Current Risk: MEDIUM for future budget matters Residual Risk MEDIUM</p> <p>Other Implications: None.</p>
<p>Recommendation</p>	<ol style="list-style-type: none"> 1. Members are asked to note the comments of the outturn section of the report. A further report on the outturn, as part of the closing of accounts and audit will come back to the September meeting. 2. Members are also asked to consider and comment on the forecast position for 2016/17 and actions being taken, through the Forward Together 2020 programme and the Budget Strategy Task & Finish Group.
<p>Reason for Recommendation</p>	<ol style="list-style-type: none"> 1. To allow officers to continue work on the accounts closure process and to working positively with the Authority's Auditors, KPMG. We are aiming to have the unaudited accounts certified by the CFO by 31 May. This would be a full month earlier than usual and would ensure compliance with the Accounts and Audit Regulations 2015 two years before earlier certification is mandatory. 2. To understand the anticipated pressures arising so far and to obtain comfort that strategies are in place to address the projected performance during the year.
<p>Appendices</p>	<p>None</p>
<p>Background Papers</p>	<p>Cabinet updates on the MTFP and budget for 2016/17.</p>
<p>Officer Contact</p>	<p>Name: Tom Wilkinson Tel: 01305 224366 Email: Thomas.Wilkinson@dorsetcc.gov.uk</p>

1. Background

- 1.1. The County Council has recently changed its overview and scrutiny committees from a Directorate based structure to one based on the County Council's key outcomes, which cut across the traditional Directorate structures. Traditionally, individual service finance reports were taken to these Directorate-aligned committees. The changes made, now mean that the Audit and Governance Committee will consider a complete view of the outturn position for the County Council and of any further financial implications for the future.
- 1.2. Sound financial management requires that all available financial information is considered to inform the medium term financial plan (MTFP) and financial strategy. This report therefore considers the (unaudited) financial performance for 2015/16 and also takes the opportunity to look forward to the early forecasts of the 2016/17 outturn and implications for the MTFP and in particular the shape of the 2017/18 budget setting process.

2. 2015/16 financial performance

- 2.1. Overall the County Council overspent its budget by £0.688m. Table 1 illustrates the key variances against the Directorate and Central Budgets. The key variances are explained by Directorate.

Table 1 – outturn 2015/16

Directorate	Budget £000	Outturn £000	Variance £000	% Var
Children's Services	59,534	64,362	(4,828)	-8%
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Children's Services (outturn £64.362m – overspend of £4.828m)

- 2.2. The budgets within Children's Services are under pressure in three main areas: Children in care; Social worker agency staff and SEN transport.
- 2.3. The number of children in care has continued to increase throughout the year from 393 at the beginning of April 2015 to 486 at the end of March 2016, an increase of 93. Per head of population, the County Council now has more children in care than its comparable neighbours and now also exceeds the national average. In the past the number of looked after children averaged 340, which was deemed to be low leading to a number of cases being reviewed, which has reflected the national picture. As a result of this, since July 2014 the County Council has seen a steady increase to current levels.
- 2.4. The cost pressure from this level of children in care means we have outspent the available budget of £4.2m and includes the direct placement costs, but also the higher legal costs and costs of transport. The marginal average cost of taking a child into care is now in the region of £80k per annum.

- 2.5. Children's Field Social Work overspent by £1.3m, mainly the result of a £2.3m spend on agency staff although this has been partially offset by £0.9m of staffing underspends. There have been difficulties in recruiting experienced social workers who handle the more complex cases, due to a national shortage of qualified social workers; an increase in demand has exacerbated this situation. There is currently a restructure of the service in progress, designed to build resilience, alongside a proactive recruitment campaign which has sought to improve incentives to attract high quality worker, which will negate the impact in future years.
- 2.6. SEN transport has overspent its budget for a number of years and whilst progress has been made in relation to how the County Council enables children with a disability to attend school, the financial position has not improved. This is disappointing as the forecasts had not predicted this during the year and we are currently investigating why this is the case, assisted by colleagues from SWAP.
- 2.7. There have been some compensating underspends, mainly against Business Support, Commissioning and the Director's Office as in-year action to reduce spend on controllable budgets has been taken.

Adult & Community Services (outturn £121.373m – overspend of £0.66m)

- 2.8. The Residential Care for Older People budget was overspent by £2.5m on a £34.9m budget. There were 1,157 placements at the end of March, 63 above budgeted provision. The demand for new placements continued and 593 new placements were made during 2015/16. The origins of these placements were monitored during the year and the Directorate and colleagues from Health worked together to reduce admissions from hospitals. The overspend figure includes of £0.4m for void placement costs on external block bed contracts.
- 2.9. Learning Disability demand led budgets overspent by £0.2m for Direct Payments, £0.5m for Residential Care and Supported Living £1.0m. Demand pressures for homecare across all service areas remained high and the budget overspent by £1.2m. The Directorate undertook targeted reviews of care packages to reduce costs where possible. The service had £2m from reserves to support the £3m structural overspend.
- 2.10. Tricuro, the Local Authority Trading Company (LATC) for Adult and Community Services went live on the 1 July 2015 and is owned by the Bournemouth, Poole and Dorset Local Authorities. The LATC commissioning budget was £26.7m. Savings of £1.5m were delivered in 2015/16 as part of the Pathways to Independence programme. Tricuro returned £0.196m of unused funding to Dorset County Council at the end of March 2016.
- 2.11. The Partnerships and Performance budget was underspent by £1.08m. This included unspent Directorate contingency of £0.250m (set aside for potential winter pressures), a £0.193m underspend on the Trading Standards budget largely due to additional income, a £0.21m underspend on the Directorate's Training budget and an underspend on Community Safety of £0.139m due to vacant posts.
- 2.12. An area of constant scrutiny was the £2.75m increase in S75 funding from Health. £1.8m (67%) of this funding was fully secure with the balance of £0.95m dependent on joint working with the Clinical Commissioning Group to reduce expenditure on Continuing Health Care (CHC). This was successfully achieved and funding released to the County Council. There was a total amount of £10.5m from Health supporting the Adult Social Care Budget in 2015/16.

- 2.13. The Early Help and Community Services budget was underspent by £0.244m at the end of the year. The Registration Service budget exceeded the anticipated income streams leading to an overall net over recovery of £39k.
- 2.14. Public Libraries salaries budgets were underspent due to staff turnover and posts being held vacant pending further restructure of the service. Grants from the Home Office to fund management costs of running libraries in Prisons increased the Libraries underspend from the February prediction by £35k and spending on books was reduced by a further £30k compared to the February position. The School Library Service fell short of its income targets for the year. The under-recovery has been funded from the underspend in the Public Library budget.
- 2.15. Following phase one of the Directorate restructure on 1 May 2015 budgets Early Help budgets have been realigned. Income from Blue Badges contributed towards an overall net underspend of £76k.

Environment and the Economy (outturn £30.433m – underspend of £0.865m)

- 2.16. The Directorate as a whole underspent by £0.865m which was greater than the February forecast of £0.445m.
- 2.17. There were larger underspends in Economy and Enterprise and Transport Planning than previously forecast.
- 2.18. Dorset Passenger Transport underspent by an additional £68k due to expenditure being forecast that wasn't realised in 2015/16.
- 2.19. The majority of the Business Support Unit's underspend was due to the holding of vacant posts, together with the identification of additional unbudgeted income streams.
- 2.20. The Coast and Countryside final outturn equalled the budget for 2015/16. This continued the downward trend for many months since the forecast overspend of £0.404m at the beginning of the year. Changes reflect service restructure, income collection now in hand, vacancy management and restraint exercised across the whole service to reduce spend wherever possible, despite unplanned expenditure in Arboriculture to deal with the effects of late winter storms. The late cold spell checked grass growth enabling us to delay by two weeks on average the start of verge maintenance, even following the exceptionally mild winter.
- 2.21. The Estate and Assets Service budget reflected the restructuring that has taken place and the anticipated income generated by the team. The County Buildings budget has been carrying a structural deficit for the past couple of years due to the under recovery of internal recharges from trading entities. Work is ongoing to rectify this. Furthermore, there have been two unbudgeted invoices in the order of £40k received for repair and maintenance works to Princes House, which is held on an FRI lease.
- 2.22. The Buildings and Construction budget underspend reflects large savings through vacancy management following the restructure, together with some over recovery of income, through work in progress adjustments, due to the timing of project ends.
- 2.23. The outturn for Network Management is a significantly higher underspend than previously forecast. The Data team had a higher underspend due to less expenditure on hardware and Pitney Bowes than forecast. The Traffic team had additional income

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in a number of areas and the advertising costs for Temporary Traffic Regulation Orders were much lower than had been forecast.

- 2.24. Network Development previously predicted a surplus of £54k at end of year which versus an actual surplus of £67k on a budget of £1.09m.
- 2.25. Network Operations ended the year with a higher underspend than anticipated. This was mainly due to £0.107m of recharges relating to Network Damage that were only charged in March and so hadn't previously been accounted for in the forecast.
- 2.26. Fleet Services has had a good year with underspends across both pay related and vehicle parts budgets. A service restructure and change in working practices early in 15/16 to deliver a balanced budget exceeded early forecasts. Meeting income targets has been challenging this year, but a very good end of year has exceeded previous forecasts and delivered a modest surplus, contributing to an overall budget underspend of £90k.
- 2.27. The Director's office overspent by £45k after £60k income from TRICS Consortium Ltd, as part of the 2014/15 final consortium settlement, remained in the general DCC contingency budget as this was not needed to help with one-off savings targets for Environment and Economy during 2015/16. TRICS is a private company established by DCC and five other local authorities (trip rate information computer system).

Chief Executives (outturn £20.024m – underspend of £0.448m)

- 2.28. The Chief Executive's Department underspent by £0.448m compared to the underspend of £0.211m predicted in February.
- 2.29. Legal and Democratic services delivered a £0.140m underspend against a prediction of £41k in February, due to earlier realisation of savings in relation to the annual law library, a lower than expected final invoice for the Coroners service and a lower than predicted spend in the Corporate and Democratic Core budget.
- 2.30. Financial Services underspent by £0.155m, an increase of £66k since February's prediction due to a higher than anticipated recharge to the Pension Fund for work carried out within the Pension section.
- 2.31. Human Resources underspent by £0.289m due to budget and vacancy management during the year, reduced training costs and increased income.
- 2.32. The Cabinet budget achieved a year-end underspend of £0.164m. £0.150m of this was due to savings made on the renewal of our insurance policies through taking a different attitude to risk in a number of areas.
- 2.33. The ICT budget overspent by £55k. This was due to some unexpected increases in costs during the year which were managed in part by delaying staff appointments where possible.
- 2.34. Others areas with the Chief Executives Department (Emergency Planning, Commercial Services, Policy & Research, Partnerships and Governance & Assurance) produced small under and overspends which offset each other overall.
- 2.35. The Directorate has an ongoing base budget issue of £0.341m. This has been offset in part by a carry forward reserve of £93k and in part by the overspends detailed in paragraphs 2.30 to 2.33 above

Partnerships (outturn £18.797m – underspend of £0.337m)

- 2.36. The underspend against the budget for services provided in partnership is as a result of The Dorset Waste Partnership underspending in total by £520k (around 1.6%) on a budget of £32.456m. The costs of the Waste Partnership are shared between The County Council and the six District and Borough Councils, with the County Council's share of the year end underspend being £0.337m.
- 2.37. The principle reasons for a final underspend, when February 2016 forecasts were still suggesting a small overspend were due to trade waste income being more buoyant than the previous prediction, recyclate prices also fell, unexpectedly, from around £20 per tonne to around £13 per tonne at the end of the year. Tonnages of waste arising were also lower than expected in February and March and capital financing charges were significantly lower than expected due to further slippage on infrastructure schemes and the delivery of vehicles in early 2016/17, rather than, as previously expected, the final quarter of 2015/16.
- 2.38. Public Health Dorset is now in its fourth year. Despite a funding cut of £1.9m in 2015/16, announced in year, the service has underspent by £0.562m. This has been transferred into the Public Health reserve due to the ring fence currently in place around these funds.

Central budgets

- 2.39. Centrally controlled budgets including interest payable, interest receivable, capital financing costs and the contingency budget underspent by £3.15m. The main areas of underspend were in contingency (£0.436m) – which also showed a swing of £0.467m since the February forecast, mainly due to redundancy costs not arising until 2016/17 – and capital financing costs due to the MRP changes approved by the Cabinet during the year.
- 2.40. Despite the net overspend of £0.688m for the year, the change of method of calculating MRP also enabled the authority to make backdated, cumulative changes during 2015/16, meaning an additional £2.7m was transferred to the general fund. The County Councils balances therefore close the year at £14.6m, comfortably above the lower-end of the operating range of £10m.

3. 2016/17 Projection

- 3.1. Overall this early forecast for 2016/17, based on known changes since the budget was approved in February 2016 and the first months spend, shows a projected overspend against budget of £6.77m. Table 2 illustrates the key variances against the Directorate and Central Budgets. The key variances are explained by Directorate.

Table 2 – 2016/17 Forecast Outturn as at May 2016

Directorate	Budget £000	Forecast Outturn £000	Forecast Variance £000	Forecast Variance %
Children's Services	56,924	60,624	(3,700)	-6%
Adult & Community Services	120,833	121,934	(1,101)	-1%
Environment and the Economy	29,926	31,712	(1,786)	-6%
Chief Executives	18,668	19,202	(534)	-3%
Partnerships	22,000	21,649	351	2%
Dorset County Council Total	248,351	255,121	(6,770)	-3%

Children's Services – Forecast Outturn (£60.624m, overspend of £3.7m)

- 3.2. The pressures from 2015/16 have carried through to 2016/17. As part of the budget process, Children's Services identified savings and efficiencies of £3.7m. However, following analysis prepared as part of the budget setting process the County Council acknowledged that the existing budget for looked after children was insufficient, so it agreed to invest a further £3m a year, meaning that around 400 looked after children could be accommodated. A further one-off allocation of £5m was also provided to acknowledge that it would take time for the numbers in care to reduce from a predicted peak of around 500 to the new base position of 400 children. Of the £5m, £4m was earmarked for 2016/17, with the remaining £1m to be made available in 2017/18.
- 3.3. The current prediction, based on the latest projection of numbers of looked after children, suggests that numbers will peak at around 535 by June 2016 before reducing to around 460 by November 2017. This means that the peak will be higher and earlier than budgeted for, and will not reduce by as much. The additional cost of these extra children will be around £6.6m more than the available budget including additional legal costs associated with increased care proceedings.
- 3.4. Agency social worker staffing will continue to cause cost pressures until at least September when the new Care and Protection service structure is implemented. It is likely that these costs will be around £0.55m more than budgeted.
- 3.5. SEN transport is expected to cause continuing cost pressure, partly as a result of the additional savings brought forward as part of the budget setting process. Better data and understanding should result in a reduction in total spend compared to 2015/16, but it is expected that there will be an overspend against this reduced budget of around £0.5m.
- 3.6. The £4m of contingency, highlighted above will be used to offset these overspends.

Adult & Community Services (£120.833m, overspend of £1.1m)

- 3.7. The underlying overspend in the Adult Care budget will continue due to fee increases and demographic pressures. However, these have been mitigated by additional money received through the Social Care Precept (£3.9m) and other base budget adjustments.
- 3.8. The forecast overspend also reflects the *Forward Together* savings targets where plans are still being developed and further work is required.
- 3.9. The Directorate Management Team continues to work towards achieving a balanced budget for 2016/17.

Environment and the Economy (forecast = £31.712m, overspend of £1.785m)

- 3.10. The projected overspend relates to savings that have yet to be secured, mainly as part of the *Forward Together* savings programme. Work is continuing to ensure that these savings are secured. The main areas where additional work is required to secure savings are in public transport and the way we work property rationalisation.

Chief Executives (forecast = £19.902m, overspend of £0.534m)

- 3.11. The projected overspend for the Chief Executives Department includes the base budget problem of £0.341m mentioned earlier, which remains a budget pressure at the

moment. It has been agreed that this cost pressure will be divided out between the different cost centres in the department and managed by the individual budget holders.

- 3.12. The ICT budget is predicting a £0.141m overspend. This reflects the cost reductions that are at risk due to delaying the execution of their plan to reduce costs within the service.
- 3.13. Communications, Legal Services and Partnerships are also predicting small overspends. These are due to budget pressures already identified.

Partnerships (forecast = £21.649m, underspend of £0.351m)

- 3.14. The projected underspend is due to the Dorset Waste Partnership projecting a favourable variance of £0.546m. The County Council's share of this variance is £0.351m. The projected underspend arises primarily from favourable prices in relation to a major contract that is being renewed in 2016/17.

4. Implications for the 2017/18 Budget

- 4.1. The Budget Strategy Task and Finish Group has met twice already this year. So far Members have received presentations, briefings and reports to clarify the funding position and the budget gap for the three year planning period to 31 March 2020.
- 4.2. At the next meeting, Members will be receiving updates from Directors regarding their *Forward Together 2020* transformation plans as they look to develop a clearer framework for allocating resources to match priorities and move away from a narrow focus on proportionate budget reductions.

Richard Bates
Chief Financial Officer
May 2016